



Senate

General Assembly

File No. 724

January Session, 2009

Substitute Senate Bill No. 930

Senate, April 20, 2009

The Committee on Finance, Revenue and Bonding reported through SEN. DAILY of the 33rd Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

AN ACT AUTHORIZING ECONOMIC RECOVERY NOTES.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. (NEW) (*Effective from passage*) (a) For the purpose of
2 funding the deficit in the General Fund arising from the operations of
3 the state General Fund for the fiscal year ending June 30, 2009, as
4 reported by the Comptroller to the Governor in accordance with
5 section 3-115 of the general statutes, the Treasurer is authorized to
6 issue notes of the state from time to time in an amount not to exceed
7 five hundred million dollars, and to deposit the proceeds thereof in the
8 General Fund.

9 (b) The notes shall be designated economic recovery notes and shall
10 be issued on or after the effective date of this section.

11 (c) All such notes shall be general obligations of the state and the
12 full faith and credit of the state of Connecticut are pledged for the
13 payment of the principal of and interest on said notes as the same shall

14 become due, and accordingly and as part of the contract of the state
15 with the holders of said notes, appropriation of all amounts necessary
16 for punctual payment of such principal and interest is hereby made,
17 and the Treasurer shall pay such principal and interest as the same
18 become due. All such notes shall be sold at not less than par and
19 accrued interest in such manner and on such terms as the Treasurer
20 may determine is in the best interest of the state, and shall be signed in
21 the name of the state and on its behalf by the Treasurer. All such notes
22 shall mature before July 1, 2016, in such principal amounts and at such
23 times, bear such date or dates, be payable at such place or places, bear
24 interest at such rate or different or varying rates, payable at such time
25 or times, be in such denominations, be in such form with or without
26 interest coupons attached, carry such registration and transfer
27 privileges, be payable in such medium of payment, be subject to such
28 terms of redemption with or without premium and have such
29 additional security, covenant or contract provisions, including credit
30 facilities which may include a letter of credit or insurance policy from a
31 commercial bank or insurance company authorized to do business
32 within or without the state, and the necessary or appropriate
33 provisions to ensure the exclusion of interest on the notes from
34 taxation under the Internal Revenue Code of 1986, or any subsequent
35 corresponding internal revenue code of the United States, as amended
36 from time to time, as appropriate or necessary to improve their
37 marketability, as the Treasurer shall determine prior to their issuance.
38 In connection with any such credit facility, the Treasurer may enter
39 into any reimbursement agreements, remarketing agreements, standby
40 purchase agreements or any other necessary or appropriate
41 agreements securing or insuring such notes, on such terms and
42 conditions as the Treasurer determines to be in the best interest of the
43 state. In the event the credit facility is drawn upon to pay the principal
44 of or interest on such notes, the full faith and credit of the state is
45 pledged to the repayment of the amount so drawn and the Treasurer is
46 authorized to include such pledge in any such agreement as part of the
47 contract with the provider of such credit facility. The Treasurer shall
48 apply any appropriation for the payment of such notes to such

49 reimbursement repayment if such credit facility is drawn upon. Any
50 expense incurred in connection with the initial issuance of the
51 economic recovery notes shall be paid from the accrued interest and
52 premiums or otherwise from the General Fund. All such notes, their
53 transfer and the income therefrom, including any profit on the sale or
54 transfer thereof shall at all times be exempt from all taxation by the
55 state or under its authority and are hereby made and declared to be (1)
56 legal investments for savings banks and trustees unless otherwise
57 provided in the instrument creating the trust, (2) securities in which all
58 public officers and bodies, all insurance companies and associations
59 and persons carrying on an insurance business, all banks, bankers,
60 trust companies, savings banks and savings associations, including
61 savings and loan associations, building and loan associations,
62 investment companies and persons carrying on a banking or
63 investment business, all administrators, guardians, executors, trustees
64 and other fiduciaries and all persons whatsoever who are or may be
65 authorized to invest in notes of the state, may properly and legally
66 invest funds including capital in their control or belonging to them,
67 and (3) securities that may be deposited with and shall be received by
68 all public officers and bodies for any purpose for which the deposit of
69 notes of the state is or may be authorized.

70 (d) (1) There is established a fund to be known as the "Economic
71 Recovery Note Debt Retirement Fund". Investment earnings credited
72 to the assets of said fund shall become part of the assets of said fund.
73 Any balance remaining in said fund at the end of the fiscal year, except
74 as otherwise provided herein, shall be transferred and credited to the
75 General Fund.

76 (2) The fund shall be used by the Treasurer for the payment of (A)
77 the principal of and interest on such notes maturing in each fiscal year,
78 (B) any expenses in connection with the operation of the Economic
79 Recovery Note Debt Retirement Fund including payment of
80 underwriting fees and expenses and such other costs of issuance not
81 otherwise paid or provided for and costs of obligations incurred in the
82 event a credit facility is obtained for the security of the notes, as the

83 case may be, and (C) pursuant to the provisions of subsection (f) of this
84 section, the purchase price or redemption price, if applicable, on notes
85 purchased or redeemed prior to maturity. The amounts required for
86 such payments as aforesaid are deemed appropriated therefore and
87 the Treasurer is authorized to pay such amounts when due.

88 (3) At such time or times in each fiscal year, but in any event not
89 later than the day before an interest or principal payment date on the
90 economic recovery notes, the Treasurer shall cause that amount of tax
91 revenues otherwise applicable to the General Fund equal to the
92 aggregate amount of principal of and interest on the notes and that
93 amount of such expenses of the Economic Recovery Note Debt
94 Retirement Fund becoming due in such fiscal year in accordance with
95 the schedule set forth in subsection (b) of this section to be credited to
96 the Economic Recovery Note Debt Retirement Fund established under
97 this section and applied solely for the purpose of paying such interest
98 of and principal on the notes and such expenses. The Comptroller is
99 hereby authorized and directed to record such amount of revenues so
100 credited as receipts of the Economic Recovery Note Debt Retirement
101 Fund and shall not account for such amounts as a revenue or receipt of
102 the General Fund.

103 (e) Notwithstanding any provision of the general statutes, for the
104 purpose of determining at any time or times the position of the
105 General Fund as of June 30, 2010, the Comptroller is authorized and
106 directed to give effect to and to show the funding of the General Fund
107 deficit as of June 30, 2009, in an amount equal to the principal amount
108 of the notes issued and deposited in the General Fund, provided the
109 notes authorized in this section have been so issued prior to such time
110 or times of determination, it being hereby declared to be the intent and
111 purpose of this section to provide for the General Fund deficit as of
112 June 30, 2009, by the funding thereof through the issuance of the notes.

113 (f) Notwithstanding the provisions of section 4-30a of the general
114 statutes, after the accounts for the fiscal years ending June 30, 2010,
115 and June 30, 2017, are closed, the Comptroller determines there exists

116 an unappropriated surplus in the General Fund, after any amounts
117 required by provision of law to be transferred for other purposes have
118 been deducted, the amount of any such surplus shall be used for
119 redeeming prior to maturity any outstanding notes issued under this
120 section or, in accordance with the contract with the holders of any
121 notes, for deposit in the Economic Recovery Note Retirement Fund to
122 be held by the Treasurer, in trust, for either the purchase of notes at a
123 price not more than par plus accrued interest thereon or the payment
124 of the principal of and interest on notes and the redemption premium,
125 if any, in any such year, as provided by law or as the Treasurer deems
126 appropriate.

127 Sec. 2. Subsection (a) of section 3-21 of the general statutes is
128 repealed and the following is substituted in lieu thereof (*Effective from*
129 *passage*):

130 (a) No bonds, notes or other evidences of indebtedness for
131 borrowed money payable from General Fund tax receipts of the state
132 shall be authorized by the General Assembly or issued except such as
133 shall not cause the aggregate amount of the total amount of bonds,
134 notes or other evidences of indebtedness payable from General Fund
135 tax receipts authorized by the General Assembly but which have not
136 been issued and the total amount of such indebtedness which has been
137 issued and remains outstanding to exceed one and six-tenths times the
138 total General Fund tax receipts of the state for the fiscal year in which
139 any such authorization will become effective or in which such
140 indebtedness is issued, as estimated for such fiscal year by the joint
141 standing committee of the General Assembly having cognizance of
142 finance, revenue and bonding in accordance with section 2-35. In
143 computing such aggregate amount of indebtedness at any time, there
144 shall be excluded or deducted, as the case may be, (1) the principal
145 amount of all such obligations as may be certified by the Treasurer (A)
146 as issued in anticipation of revenues to be received by the state during
147 the period of twelve calendar months next following their issuance and
148 to be paid by application of such revenue, or (B) as having been
149 refunded or replaced by other indebtedness the proceeds and

150 projected earnings on which or other funds are held in escrow to pay
151 and are sufficient to pay the principal, interest and any redemption
152 premium until maturity or earlier planned redemption of such
153 indebtedness, or (C) as issued and outstanding in anticipation of
154 particular bonds then unissued but fully authorized to be issued in the
155 manner provided by law for such authorization, provided, as long as
156 any of such obligations are outstanding, the entire principal amount of
157 such particular bonds thus authorized shall be deemed to be
158 outstanding and be included in such aggregate amount of
159 indebtedness, or (D) as payable solely from revenues of particular
160 public improvements, (2) the amount which may be certified by the
161 Treasurer as the aggregate value of cash and securities in debt
162 retirement funds of the state to be used to meet principal of
163 outstanding obligations included in such aggregate amount of
164 indebtedness, (3) every such amount as may be certified by the
165 Secretary of the Office of Policy and Management as the estimated
166 payments on account of the costs of any public work or improvement
167 thereafter to be received by the state from the United States or agencies
168 thereof and to be used, in conformity with applicable federal law, to
169 meet principal of obligations included in such aggregate amount of
170 indebtedness, (4) all authorized and issued indebtedness to fund any
171 budget deficits of the state for any fiscal year ending on or before June
172 30, 1991, (5) all authorized indebtedness to fund the program created
173 pursuant to section 32-285, (6) all authorized and issued indebtedness
174 to fund any budget deficits of the state for any fiscal year ending on or
175 before June 30, 2002, (7) all indebtedness authorized and issued
176 pursuant to section 1 of public act 03-1 of the September 8 special
177 session*, (8) all authorized indebtedness issued pursuant to section 3-
178 62h, [and] (9) any indebtedness represented by any agreement entered
179 into pursuant to subsection (b) or (c) of section 3-20a as certified by the
180 Treasurer, provided the indebtedness in connection with which such
181 agreements were entered into shall be included in such aggregate
182 amount of indebtedness, and (10) all indebtedness authorized and
183 issued pursuant to section 1 of this act. In computing the amount of
184 outstanding indebtedness, only the accreted value of any capital

185 appreciation obligation or any zero coupon obligation which has
186 accreted and been added to the stated initial value of such obligation
187 as of the date of any computation shall be included.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>from passage</i>	New section
Sec. 2	<i>from passage</i>	3-21(a)

FIN *Joint Favorable Subst.*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 10 \$	FY 11 \$
Treasurer, Debt Serv.	GF - Cost	See Below	See Below

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill authorizes the Office of the State Treasurer to issue up to \$500 million in Economic Recovery Notes (ERNs) bonds to finance the FY 09 General Fund deficit. The total General Fund debt service cost for principal and interest payments on this amount over 7 years, assuming a 3.5% interest rate, is \$570 million.

The Out Years

The future fiscal impact of issuing the ERNs is the payment of the debt service mentioned above over the life of the bonds (up to 7 years).

Sources: Office of the State Treasurer

OLR Bill Analysis**sSB 930*****AN ACT AUTHORIZING ECONOMIC RECOVERY NOTES.*****SUMMARY:**

This bill authorizes the state to issue up to \$500 million in economic recovery notes to fund the FY 09 General Fund deficit. The notes are state general obligations and must mature before July 1, 2016. The bill exempts the debt attributable to the notes from the statutory limit on state General Fund-supported debt (see BACKGROUND).

The bill establishes a separate Economic Recovery Note Debt Retirement Fund. The treasurer must use the fund to pay (1) principal and interest on the economic recovery notes maturing each fiscal year; (2) for costs and expenses not otherwise provided for issuing the notes, operating the fund, and, if necessary, paying any obligations incurred in obtaining a credit facility (such as insurance or a letter of credit) for the notes; and (3) for purchasing and redeeming notes before maturity.

The bill requires the treasurer to credit to the debt retirement fund rather than the General Fund whatever tax revenue is needed to pay the principal, interest, and other expenses of the notes each fiscal year. Under the bill, the necessary amounts are appropriated to the fund no later than the day before the payments are due. The comptroller must record the necessary revenue as part of the fund's receipts.

The bill also allocates to the debt retirement fund, rather than the Budget Reserve Fund, any unappropriated General Fund surpluses for FY 10 "and" FY 17. (It is unclear why the bill excludes any available unappropriated surpluses from the fiscal years between the specified years.) The treasurer must use these funds to pay the notes off early or, if the contract with the note holders does not allow early redemption, hold them until the notes mature.

EFFECTIVE DATE: Upon passage

ECONOMIC RECOVERY NOTE PROCEEDS

The treasurer must issue the notes on or after the bill's passage and deposit the proceeds from their sale in the General Fund. In any determination of the General Fund's position for FY 10, the comptroller must reflect the amount of the note proceeds funding the FY 09 General Fund deficit, if the notes have been issued before the determination.

TAX EXEMPTION AND USE OF NOTES FOR INVESTMENT

The bill exempts interest on, and gains from the sale of, the notes from all taxes imposed by the state or under its authority. It also requires the treasurer to structure the notes so their interest is excluded from federal taxes if that is appropriate or necessary to improve the notes' marketability.

Finally, the bill makes the notes legal investments for banks, insurance companies, fiduciaries, and public bodies and allows public officers to accept them for any purpose for which they may receive or deposit state notes.

BACKGROUND

Statutory Debt Limit

State law limits the amount of state General Fund-supported debt to 1.6 times the net General Fund tax receipts the Finance, Revenue and Bonding Committee projects for the fiscal year in which the legislature authorizes the debt. Certain types of debt are excluded from the debt limit calculation, including debts incurred for federally reimbursable public works projects, assets in debt retirement funds, and debt incurred in anticipation of revenue and some other purposes.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute

Yea 40 Nay 15 (04/02/2009)

